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SUBJECT: SUPPORT FOR TRADE MISSIONS TO SRI LANKA

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¶11. Summary: Post, along with the American Chamber of Commerce Sri Lanka (AmCham Sri Lanka) would welcome a trade mission described in reftel from the American Chamber of Commerce of India (AmCham India). Post will work closely with AmCham Sri Lanka on this project. Regarding a possible separate trade mission of US textile and yarn manufacturers described in reftel, Post and the Sri Lankan garment industry are also willing to host and meet with such a mission. Sri Lanka imports over USD 1.5 billion in textiles annually, and there is an openness and desire on the part of Sri Lankan garment manufacturers to purchase US products. But several significant impediments to increased US textile and yarn sales exist and need surmounting to sell a large quantity of such goods to Sri Lanka. End Summary.

AMCHAM INDIA TRADE MISSION TO SRI LANKA WELCOMED

¶12. With the ever-increasing flow of trade between India and Sri Lanka (\$2.4 billion in 2006), as well as the presence of the Indo-Lanka Free Trade Agreement, which has prompted a significant increase in bilateral trade, building on an already strong relationship between AmCham India and AmCham Sri Lanka makes sense. AmCham Sri Lanka has commissioned a study to analyze which US business sectors could most directly benefit from the Indo-Lanka Free Trade Agreement and several US companies in Sri Lanka are currently importing US components, adding value, and then re-exporting to India, benefiting from duty concessions into the enormous Indian market.

¶13. EconOff approached Gordon Glick, Executive Director of AmCham Sri Lanka, about a visit by AmCham India representatives. Glick responded that he would welcome such a visit and would work with AmCham India to facilitate such a trip. He had already responded to an inquiry by the Sri Lanka Ministry of Foreign Affairs noting that anticipated dates for the visit are from October 25 to November 3, 2006. Post will also work with AmCham to ensure that this visit will be a success. (Comment: Glick has served as Executive Director of AmCham Sri Lanka since June 2005. During the time working with him, EconOffs have found Glick to be highly organized and mission-oriented, with the ability to accomplish what he sets out to do. End Comment.)

US TEXTILE MANUFACTURER TRADE MISSION TO SRI LANKA

¶14. Sri Lanka currently imports approximately USD 1.5 billion per year in textiles for its globally competitive

garment sector. Imports of textiles will likely grow to over USD 2 billion in the next four years. Post sees potential US exports resulting from a US textile and yarn manufacturer trade mission to Sri Lanka, and would be pleased to work with the Department of Commerce to promote and facilitate such a trip. Such a visit would enable US manufacturers to become more familiar with the level of sophistication of their potential Sri Lankan clients and to more fully understand the issues that they would need to resolve with Sri Lanka garment manufacturers before realizing increased sales to Sri Lanka.

¶15. To ensure that Sri Lankan garment manufacturers would be sufficiently interested in such a trade mission, EconOff met with six leading members of the Joint Apparel Association Forum (JAAF), a garment manufacturing interest group, and separately with a representative of MAS Holdings, the leading garment producer in Sri Lanka and manufacturer of well-known high-quality brands such as Nike, Gap and Victoria's Secret. Unequivocal support for the trade mission was given at both meetings, with the caution that some difficult issues would need to be surmounted: price, flexibility of manufacturers in meeting the scheduling needs of the garment makers, and contract terms.

¶16. PRICE AND LACK OF TRADE CONCESSIONS FOR US CONTENT: JAAF members said that while many US textiles and yarns may not be price competitive, there were some possibilities, especially in US gray cloth, standard cloth, some yarns, and high-tech textiles and yarns. In addition to the standard issue of higher US costs, JAAF members emphasized that the lack of US trade concessions for US content in Sri

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Lankan garments damages US competitiveness in the market. They contrasted this with some other major buying nations where tariffs for Sri Lankan garments were reduced in proportion to the garment's content sourced from the buying nation. (Comment: Although garment industry representatives do not anticipate that this trade mission would directly lead to establishment of such trade concessions, they recognize that the textile and yarn manufacturers could become their strongest US advocates for such concessions. End Comment.)

¶17. SCHEDULING: Some textile and yarn buyers expressed concern about the time required for shipping goods from the US to Sri Lanka in comparison to some of their regional sources. Several said that the timelines could be workable, but may require greater flexibility or customer service on the part of US manufacturers. One representative who has tried to source some products from the US described situations where US manufacturers were perceived to dictate delivery times, and showed no interest in seeing whether their pro forma timelines could be slightly reduced. (Comment: In light of the extra time required to ship products from the US instead of China or other nearer producers, a demonstrated interest on the part of US manufacturers to work with their potential Sri Lankan buyers would be highly encouraged. End Comment.)

¶18. CONTRACT TERMS AND TREATMENT AS VALUED CUSTOMERS: In 2004, a delegation of Sri Lankan garment manufacturers traveled to Georgia and South Carolina to meet with US textile manufacturers and yarn spinners. At both meetings conducted in preparation of this cable, garment manufacturers lamented the visit's disappointing results. One manufacturer returning from the visit resolved to test the functionality of sourcing from the US. He requested that a container of goods be shipped to Sri Lanka. He was surprised to receive the US company's response, including stringent shipping terms, in light of the garment manufacturer's global reputation. The terms were far stricter than those imposed by other suppliers. The Sri Lankan manufacturer requested that the shipping terms be

renegotiated, but the US vendor refused. The sale never occurred. (Comment: Unfortunately, this US company missed an opportunity. Sri Lankan manufacturers partner with their garment buyers at almost all stages of the garment production process ? including the design level for some brands. They know that their US garment buyers expect a high level of service, flexibility and respect, and Sri Lankan companies will expect the same from their suppliers. End Comment.)

¶9. ADDITIONAL WAYS OF GRABBING THE SRI LANKA MARKET:
Industry members also articulated several methodologies for US investment/sales to Sri Lanka beyond shipping from a US mill. These included the warehousing of basic textiles in Sri Lanka to drastically reduce shipping times, as well as setting up textile manufacturing operations on this island.

¶10. COMMENT: Both AmCham India and the US textile and yarn trade mission to Sri Lanka could provide a substantial increase in exports by US companies to Sri Lanka. We anticipate that the AmCham India delegation will have already been sufficiently exposed to the capabilities of garment manufacturers in Sri Lanka. We urge that US manufacturers of textiles and yarn be recruited for a mission to Sri Lanka if they truly want to remain globally competitive and source to an increasingly dominant garment producing nation.

¶11. Comment, cont: We note that the Office of Textile and Apparel in the US Import Administration believes that such a trade mission would be unlikely to attract interested participants, given the perception of a poor cost-benefit equation. As described above, well-funded, growing, high-end manufacturers in Sri Lanka have already visited the US and observed minimal interest on the part of US manufacturers in supplying a portion of Sri Lanka's \$1.5 billion textile demand. Until US manufacturers display some interest (perhaps traveling to potential customers in Sri Lanka would be a start) the Sri Lanka garment industry will continue to look elsewhere for its textile and yarn needs.

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